Hearing before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security

"Enhancing the President's Authority to Eliminate Wasteful Spending and Reduce the Budget Deficit"

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The New America Foundation

Good afternoon Chairman Carper, Senator Brown, Members of the Subcommittee, thank you for inviting me here today to discuss the Reduce Unnecessary Spending Act, which would give expedited rescission authority to the President. It is an honor to have the opportunity to testify.

I am Maya MacGuineas, president of the bipartisan Committee for a Responsible Federal Budget (CRFB), whose board consists of many past directors of the Congressional Budget Office and the Office of Management and Budget, and past Chairs of the Federal Reserve Board and of the House and Senate Budget Committees. I am also the director of the Fiscal Policy Program at the New America Foundation, as well as a member of the Peterson-Pew Commission on Budget Reform, which recently released two reports—*Red Ink Rising* and *Getting Back in the Black*, which focus on the need to adopt multi-year budgetary targets and automatic triggers to help improve the budget process, and which we believe can be a helpful part of fixing our budgetary challenges. We are very interested in and supportive of efforts to improve the budget process and related rules in manners that would improve our nation's fiscal outcomes.

Clearly, we face a dangerous fiscal situation. Deficits and debt are rising as far as the eye can see. Under reasonable assumptions, we project that debt held by the public will be nearly 90 percent of the economy by the end of this decade, exceed the size of our economy in the next decade, and continue to grow at an out-of-control rate. At the end of this decade, interest obligations will be nearly $1 trillion dollars and exceed spending on all domestic discretionary spending.

I doubt we would make it to that point. Historically, our debt has on average been below 40 percent of GDP, and while that may seem like a pipedream now, that is where we should try to be again. Economic growth is likely hampered when total debt levels surpass 90 percent of GDP—and we are already there. Markets are forward looking, and not only is our debt too high, it is projected to escalate at an increasing pace as the aging of the population and health care costs push up spending and borrowing.

On its current course, over the coming decades, federal debt will explode to levels that we have not seen in other countries, let alone the United States. Clearly, no country could sustain debt levels at such heights. Our budget and economy would be overwhelmed by the commitments made in the largest entitlement programs and by interest obligations on that enormous debt.

However, we would undoubtedly be hit by a fiscal crisis long before this ever happened as credit markets lose faith in the U.S. political system's ability to fix the problem. Our creditors would either abandon U.S. debt or ask for extraordinarily high interest rates on it. The economy would take a huge hit, and there would be no chance for lawmakers to respond with thoughtful coherent budget reforms—as there is now. Instead we would be in triage mode; tax rates would be hiked dramatically, new taxes created, critical investments abandoned, and the social safety net decimated. The effects on business, seniors, and families would be catastrophic.

The solution is a multi-year, comprehensive fiscal plan that tackles each area of the budget. The sooner we enact such a plan, the better. There is no excuse—other than a political unwillingness to tackle the tough issues—to delay putting in place a plan. We need to reform entitlements, cut spending, and raise revenues through a fundamental overhaul of the tax code. Putting a plan in place to do so immediately would even give us more fiscal space for the economic recovery to continue to take hold.

In addition to supporting necessary policy reforms, CRFB has long worked to find ways to improve the budget process and institute supportive fiscal rules. Reforming the budget process to make it easier to root out waste alone won't solve our problems, but it is extremely important that at a time when fiscal issues have come to the forefront of the national agenda that lawmakers take every step possible to ensure that spending is effective and well-targeted.

That is where expedited recession authority comes in. We believe rescission authority can be an effective tool in promoting fiscal discipline. Going all the way back to 2000, CRFB touted enhanced rescission as one of many possible budget reforms in the paper "Federal Budget Process: Recommendations for Reform." More recently, the Peterson-Pew Commission's *Getting Back in the Black* report recommended giving the President increased rescission powers to help enforce deficit reduction targets. While it will not generate savings anywhere near what we need in order to deal with the nation's fiscal imbalances, it can play an important role in earning public trust for broader deficit reduction.

The Reduce Unnecessary Spending Act allows the President to identify wasteful or unnecessary spending in legislation for cancellation. It would create an expedited procedure for approving or rejecting rescissions proposed by the President. It would thus increase accountability and transparency in the budget process while respecting the responsibilities of both the White House and Congress.

In 1998, the Supreme Court found the pure line-item veto to be unconstitutional because it shifted too much budgeting authority from the Congress to the White House. This modified expedited rescission process would send the President's cuts as a rescissions package for the Senate and the House to consider with an up-or-down vote. Congress would change its rules to use fast-track procedures. This structure both provides the White House with responsibility in ensuring that wasteful measures aren't included in new spending bills, but it also retains the final decision-making power with Congress in a balanced and bicameral manner. By limiting the number of requests per bill, it is also crafted to be effective without being overly demanding or allowing the President to consume the legislative calendar.

Currently, Congress can too easily ignore a President's request and not bring a package of rescissions to a vote. According to the Congressional Budget Office (CBO), only about one-third of the Presidential rescissions made from 1976-2005 were approved by Congress. As a result, only about $25 billion over those thirty years has been saved through the Presidential rescission authority (significantly more savings came from Congressionally-initiated rescissions.)

Giving the President a more central role could increase accountability and serve as a deterrent to Members for adding low-priority spending that is likely to be included in a

Presidential rescissions package. Furthermore, the plan to sunset the new rescission process at the end of 2015 would allow Congress to review its overall effectiveness.

It would be beneficial to broaden the rescission tool to mandatory spending—including existing entitlement spending—as well as tax expenditures. So much of the budget is now run through the tax code, and these so-called tax expenditures are in most cases more like spending than tax cuts. Not applying the same types of oversights to this side of the budget opens up huge loopholes. I realize this may be more challenging legislatively, but it is worth pursuing. We need to do more to equalize the treatment of appropriated spending, direct spending, and tax-spending.

Strengthening the current rescission process would help build trust with the public for broader and deeper deficit reduction efforts. One of the most common misperceptions about our fiscal problems is that they can be solved by eliminating waste. This is not true – but eliminating waste still should be a given. It is harder to make the important and legitimate case that fixing our budget will require shared sacrifice from everyone and all parts of the budget when wasteful items are still stuck in spending and tax bills with depressing regularity. Bridges to nowhere undermine the important case that Social Security has to be changed, healthcare costs controlled, outdated programs eliminated, and tax breaks ended.

Congress has already taken a meaningful step on this front: the House and the Senate Appropriations Committee have instituted a moratorium on earmarks for this Congress. Giving the President a more credible way of rooting out wasteful spending in legislation will help that effort and give the public more reason to go along with the necessary fiscal consolidation that hopefully comes to pass in the coming years.

However, the point cannot be emphasized enough that cutting waste is no substitute for making the difficult choices that are necessary to rein in our deficits and debt. Even the *maximum potential* for savings with this enhanced rescission authority is a drop in the bucket compared to our projected deficits. Our situation will require that lawmakers keep every part of the budget open to changes. Passing important budget reforms should build momentum for the efforts, not be used as an excuse to delay them.

Senators Carper and McCain, I congratulate you on this important bill and your excellent line-up of bipartisan co-sponsors, and I hope we can quickly move forward on this idea. I

am pleased to see that Congressman Van Hollen and a number of bipartisan co-sponsors just offered this in the House.

Again thank you again for inviting me here today, and a special thank you to Adam Rosenberg, an incredibly talented researcher at the Committee for a Responsible Federal Budget, who contributed tremendously to this testimony today.

I look forward to our discussion.